LUMBER REPORT

Shocking price hikes just around the corner

By **Hawk Furman**
Special to NHCN

It feels good! Confidence is returning to the lumber industry as many factors point to a strengthening long-term recovery from the last three depression-ridden years.

Friday, Oct. 8, 1982, the Federal Reserve Discount Rate dropped from 10% to 9.5%. By mid-month, the prime rate dropped to 12%, the money supply dropped by $2.7 billion and the stock market roared. These factors added further confirmation to the turnaround in the forest products industry. Let us examine some reasons for renewed optimism.

Interest Rates: Long term interest rates, the key to sustainable recovery, are coming down. Now 14% conventional mortgages are available and the FHA/VA loan rate is 12.5% for single family homes. The National Assn. of Home Builders states that 1.8 million families can qualify for mortgages at 17%, while 7.9 million families can afford to buy a home at a 12% mortgage rate.

And it appears that there will be money available.

The secondary mortgage market is getting larger, allowing the savings institutions to act as mortgage brokers by selling their mortgages to the secondary market and working on a service fee. There is over $700 billion in pension funds today with only an estimated 2% of this money invested in mortgages.

Changes in ERISA have freed up more pension fund money for housing and further changes are proposed to open the conduit wider for more funds to flow into home mortgages. Many states have already started investing portions of their state pension funds into housing. With the Federal Discount and Prime Rate falling, the long term rates should continue to fall, which is great news for housing.

Housing demand: Despite all the gloom and doom about housing being overbuilt, the reality is quite clear. There is a tremendous pent-up demand for housing. Massachusetts put $28.5 million of its pension fund monies into mortgages. The money was all committed within a week. A Milwaukee Savings and Loan put out $100 million in variable rate mortgages at 11.9% and was swamped by applications overnight. Data Resources reports that the inventory of unsold new housing is the lowest in 18 months.

Even the homebuilders outlook has changed. A survey conducted by the NAHB shows that in July, only 19% of builders expected fair business for the next six months. By August 48% shared the optimism. This is the largest jump in expectations in two years.

Production: Lumber production remains at 75% to 80% of normal. Permanent closures of sawmills in the Pacific Northwest will mean an estimated loss of 3 billion board feet according to Data Resources. The pulp industry picture is deteriorating in the Pacific Northwest and eastern Canada and this directly affects the lumber mills, which sell chips to the paper mills. Recent and proposed curtailments at paper mills in the British Columbia interior will affect 40 lumber mills. Most of these mills will have to cut back production.

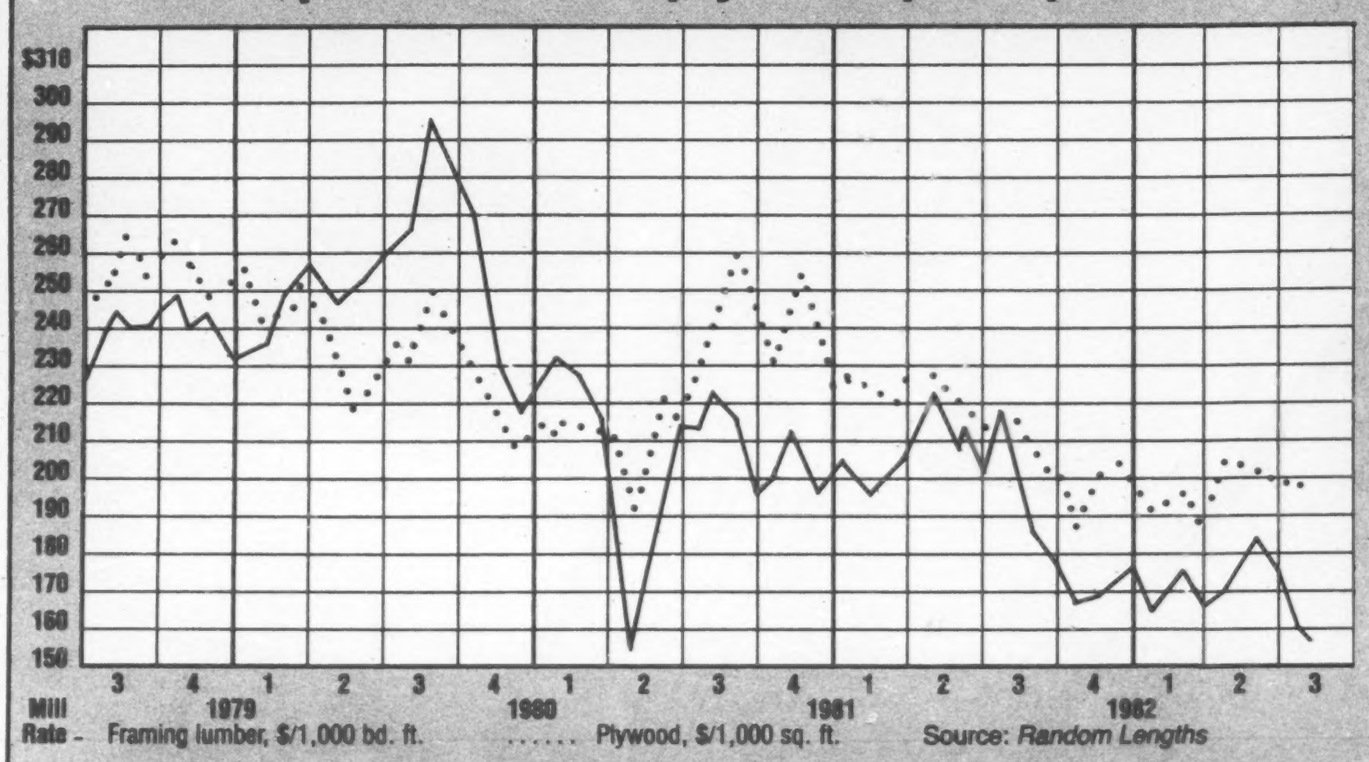
Consumption: Most experts predict an increase of 6% in lumber exports in 1983. The Western Wood Products Assn. is predicting 1.3 million housing starts in 1983. Data Resources is predicting 1.37 million starts. This 30% increase over 1982 will put lumber products in greater demand.

Combine that with the low level of inventories at the mills, wholesale, and retail yards and you may see a price rise of $50 per million board feet by spring, which will put many mills back at the breakeven level. If analyst Phil Chiricotti is correct in his prediction that production will be less than consumption in North American softwood lumber for all of 1982, we could witness shocking price hikes.

Countervailing duty—an unknown factor: A coalition of more than 350 U.S. companies represented by the Western Resource Alliance, Southern Forest Products Assn. and the Southeastern Lumber Manufacturers Assn. have filed a petition with the International Trade Commission for tariff protection from Canadian lumber, shingles, and wood fence parts. They charge that the Canadian Federal and Provincial governments are subsidizing the stumpage, production, and shipment of softwood lumber into the United States, thus allowing the Canadian producers to sell at unfair low prices. If these charges are proven, a temporary tariff could be put into effect as early as March, 1983. The price of wood would soar!

Things are looking better. Lumbermen have been so fiercely battered over the past three years that the turn in the market will not be confirmed by most of them until we are two or three months into it. I feel we have turned the corner.

Composite lumber/plywood price profile



Source: *Random Lengths*

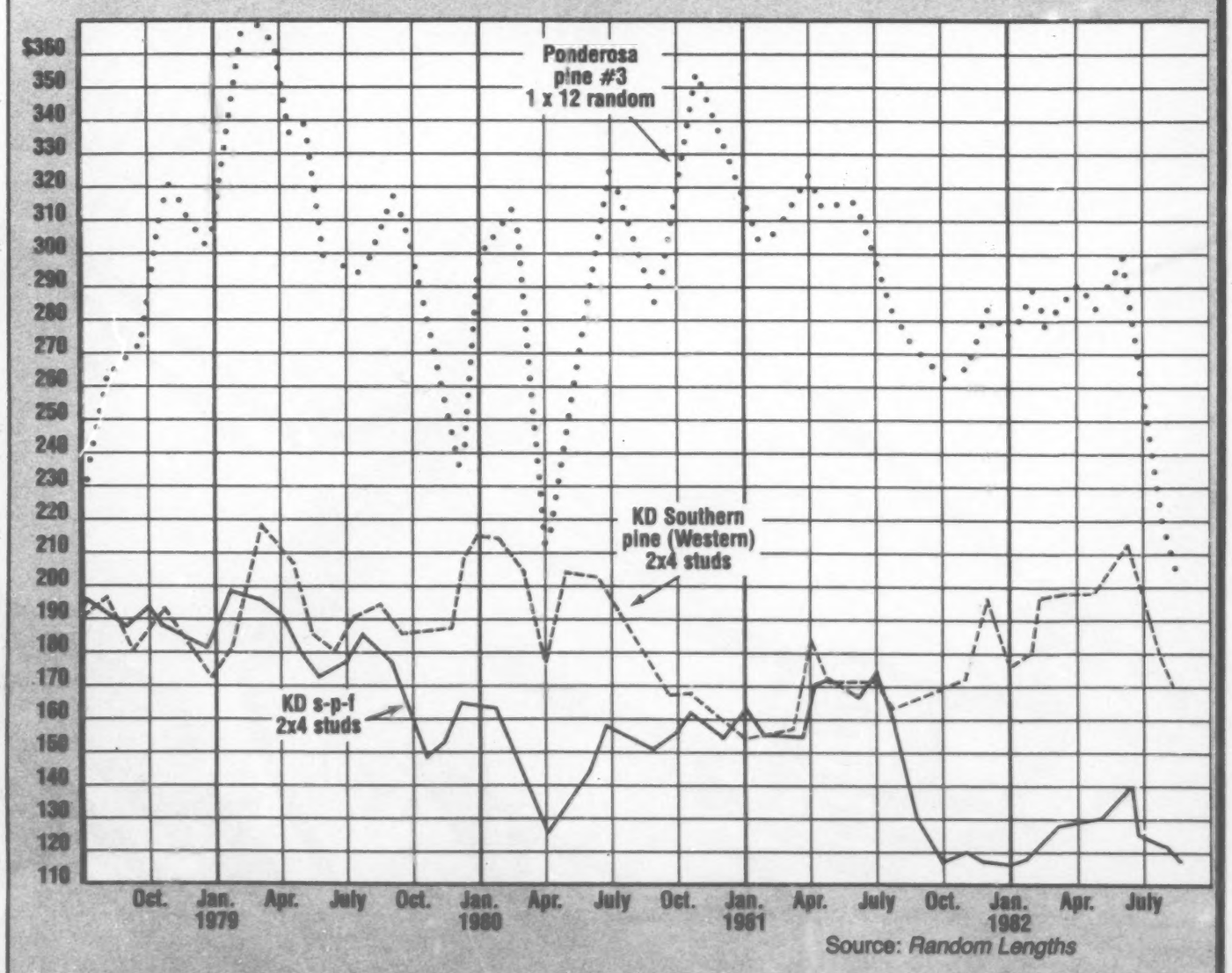
While prices may now be on the way back up as declining interest rates and a bull market seem to signal the beginning of a recovery, lumber and plywood prices for August and September remained off, perhaps representing the bottom of a three-year decline.

The composite framing lumber prices averaged $158 per thousand board feet in September compared with $160 in August and $174 in July, based on Random Length's *weighted measure of nine framing items.*

For plywood, based on a composite of seven key items, Random Length's *prices for September, August and July were $200 per thousand square foot, $196 and $204 respectively.*

Commodity close-up: Studs & boards

Average monthly mill prices



Source: *Random Lengths*

Stud and board prices continued to decline through August and September, although by October falling rates were making it more feasible for customers to carry heavier inventory.

Ponderosa pine #3 1x12 random length prices paused around the middle of August, when the market felt its first positive jolt. But prices then continued to decline, falling to an average of $205 per thousand board feet for September compared with $220 in August and $260 in July.

Prices for KD Southern pine 2x4 studs, which were pushed upward during the spring because of demand by treaters, sunk to $180 in August and $170 in September after reaching an average monthly high of $205 in June.

KD s-p-f 2x4 studs were also off, but less sharply, from $127 per thousand board feet in July to $122 in August and $119 in September.

FUTURES

Two weeks ended Oct. 15, 1982

	High	Low	Close	Previous Week	Open* Interest	Contract High	Contract Low
LUMBER (CME)—130,000 bd. ft. spruce-pine-fir 2x4's; $ per 1,000 bd. ft.							
Nov.	147.30	128.60	142.20	138.70	2,941	224.50	128.00
Jan. '83	162.00	139.30	155.90	150.80	2,730	205.50	139.00
March	171.80	149.10	166.30	160.80	859	209.80	146.80
May	178.90	157.90	175.70	169.10	366	202.00	151.50
July	187.50	165.50	184.00	179.40	566	201.00	158.00
Sept.	190.20	169.50	188.00	182.00	390	190.20	163.80
Nov.	190.80	171.30	188.00	182.90	95	190.80	168.00

Total Contract Vol. (Through 10/15): 23,965 — Previous Two Weeks: 12,955
Total Open Interest (As of 10/14): 7,967 — Previous Week: 6,204
Cash Price: $140.14 — Previous Week: $130.34 — Year Ago: $133.28

PLYWOOD (CBT)—76,032 sq. ft. ½-in. ext. 4/5-ply; $ per 1,000 sq. ft.							
Nov.	186.80	167.00	185.70	177.60	570	226.50	154.80
Jan. '83	191.30	170.50	188.70	181.70	777	218.60	157.00
March	194.90	174.00	192.30	185.50	197	196.30	162.50
May	198.50	178.20	195.50	188.50	90	198.50	167.00
July	202.00	181.50	199.50	192.00	100	202.00	170.00
Sept.	206.00	185.00	203.00	194.00	4	206.00	185.00

Total Contract Vol. (Through 10/15): 2,450 — Previous Two Weeks: 1,801
Total Open Interest (As of 10/14): 1,738 — Previous Week: 1,468
Cash Price: $185.22 — Previous Week: $173.40 — Year Ago: $174.44

COMMODITY RESEARCH BUREAU INDEX:	This Week 231.6	Previous Week 230.4	Year Ago 270.0

CME—Chicago Mercantile Exchange — CBT—Chicago Board of Trade
*Figures for Thursday, Oct. 14.
Open Interest is the number of outstanding contracts for each delivery month not liquidated by an offsetting transaction or fulfilled by delivery.

FINANCIAL NEWS

STOCK PRICES

	As of 10/13	52-week High	52-week Low	P/E Ratio
Boise Cascade (NYSE)	33	37⅛	19¾	13
Diamond Int'l (NYSE)	41⅝	42½	28⅛	53
Evans Products (NYSE) [Alamo Ent., Grossman's, Moore's, Hubbard & Johnson, Lindsley]	10⅜	25	4⅞	—
Forest City (AMEX)	15¼	15¼	11¼	—
W. R. Grace (NYSE) [Angels, Cashway, Channel, Handy City, Handy Dan, Orchard]	39½	46½	28½	5
Lowe's (NYSE)	25⅛	25½	10½	25
Payless Cashways (NYSE) [Furrow]	36¼	36¼	15¼	21
Scotty's (NYSE)	21⅝	21⅝	12	14
Southwest Forest Industries (NYSE) [Dunlap's, Knox Lumber]	11⅜	20¼	7¼	—

Over-the-counter stocks

	As of 10/13 Bid	Asked	52-week High (Bid)	Low (Bid)
Erb Lumber	11	12½	11¾	7½
Hechinger	28¼	28⅝	28¼	12⅛
Hines Lumber	15	16	20	13
The Home Depot	33½	33¾	35⅞	6½
Pay 'N Pak	17⅜	17½	17⅜	11⅝
Pay 'n Save	24⅞	25⅛	26⅜	16½
Scotts Seaboard [Scott's]	⅞	1¼	2¼	⅝
Wolohan Lumber	4½	4¾	5⅛	3

SALES & EARNINGS

Company	Period Ended	Current Sales*	Year-Ago Sales*	% Change	Current Earnings*	Year-Ago Earnings*	% Change
Lowe's	9/25-4 wks.	$84,900	$70,300	21	—	—	—
Pay 'N Pak	8/31-2nd qtr.	52,934	49,319	7	$1,915	$1,859	3
Scott's	7/31-2nd qtr.	8,282	4,448	86	341**	318**	7
Scotty's	10/2-5 wks.	29,773	26,456	13	—	—	—

*$ in thousands
** operating income

Payless 3rd-qtr. net up 45%, sales 26%

KANSAS CITY, Mo.—Payless Cashways posted outstanding increases in both sales and earnings during its third quarter ended Aug. 28, company officials reported.

The 96-store chain saw net income rise 45% to $6.9 million on a 26% sales gain to $172.8 million in the quarter compared to the same period a year ago.

Officials attributed the growth to its efforts to gain additional market share through new store expansion, acquisition and "continued commitment to proven merchandising techniques and marketing strategies."

Payless opened five new units in the third quarter, including the Dunlap's unit it acquired from Southwest Forest Industries in Nora, Ind., earlier this year. It will open the two former Brookhart's stores it recently bought (*NHCN*, July 19) in Colorado Springs in the current quarter.

Third quarter results were also aided by a sales increase of 15% in stores opened more than one year.

During the quarter, the company sold 1.1 million new common shares to raise funds for capital expenditures and working capital requirements for new stores, distribution centers and store remodeling, officials said.

The company's capital expenditures, including 15 new units, will total $56 million for fiscal 1983, and will be financed by the stock offering, funds from operations, industrial revenue bond financing, borrowing from banks and approximately $17.5 million from a sale-leaseback arrangement which is expected to be completed by year-end.

Pay 'N Pak net up 3% in 2nd qtr.

KENT, Wash.—Pay 'N Pak, continuing to feel ill effects from the closure of automotives and sporting goods departments in 11 of its larger units, experienced only modest gains in sales and earnings during its second quarter ended Aug. 31, company officials reported.

Net earnings rose 3% to $1.9 million on a 7% revenue gain to $52.9 million, compared to the same quarter last year.

Lumber products are replacing automotives and sporting goods (*NHCN*, Feb. 15) which "were closed out at cost," chairman and ceo David J. Heerensperger said. He added that sales are being lost as the company makes the changes through this fiscal year.

He noted, "We are happy to report, however, that three of the newly remodeled stores are now complete and sales results are exceeding our expectations."

Scotty's posts 13% sales rise in September

WINTER HAVEN, Fla.—Sales from 14 Scotty's units added in the past year and from sidewalk-sale promotions helped the 98-store chain post a 13% volume gain in the five-week period ended Oct. 2, company officials said.

Scotty's September sales reached $29.8 million to help push the chain's first quarter volume to $75.7 million, up 8% from the same period a year ago.

Gotta gripe?

SEND US YOUR CARDS AND LETTERS. Voice your feelings, complaints or opinions on what you see happening in the world of home center retailing and in the pages of *NHCN*. Write to: The Editor, *National Home Center News*, 425 Park Ave., New York, N.Y. 10022.

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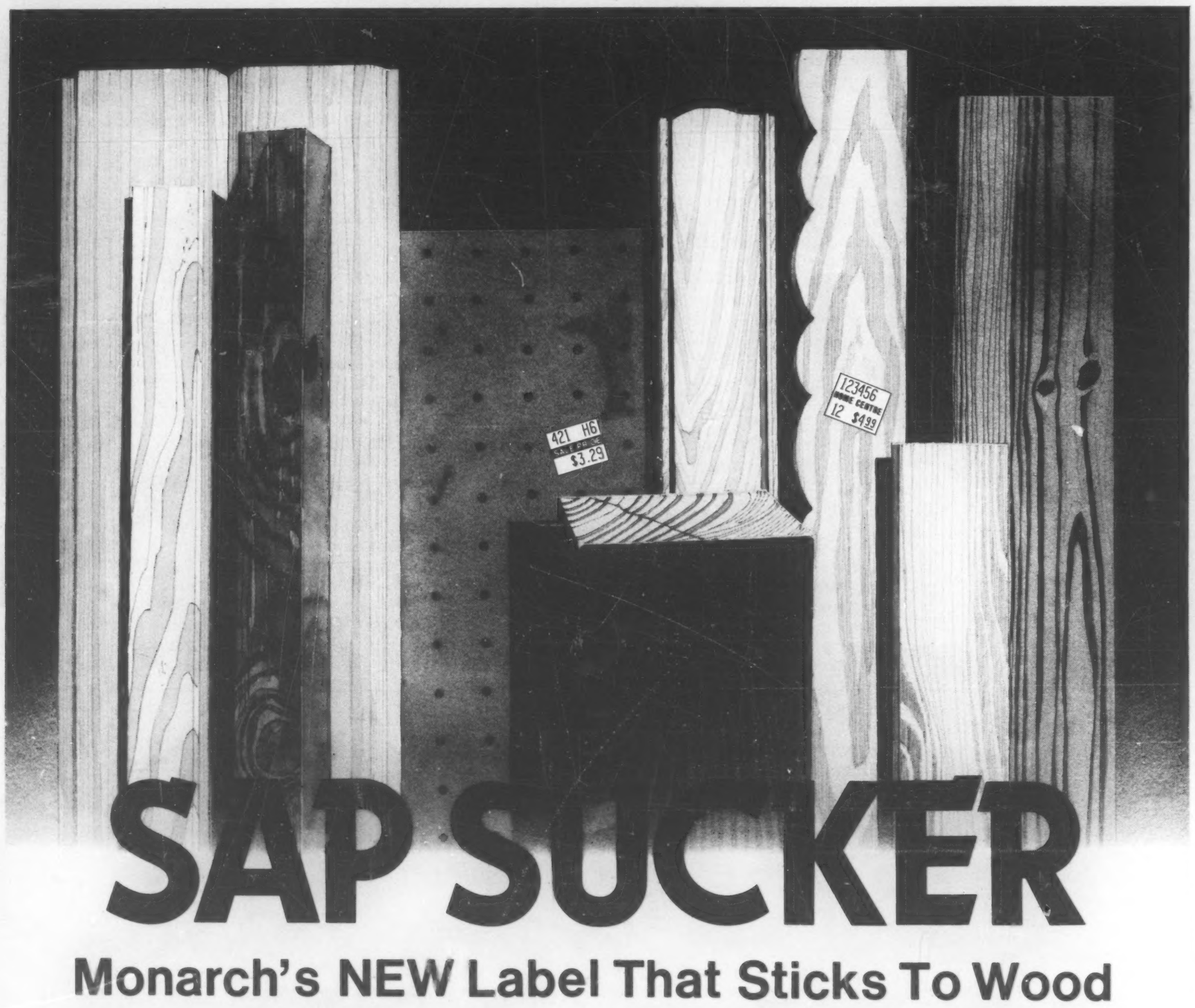

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Monarch's NEW Label That Sticks To Wood

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Retail Management Systems, p. 9

National Home Center News®

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Surge in chain saw sales helps offset 1½-year slump

By John Caulfield
NHCN associate editor

NATIONAL REPORT—Sales of chain saws, particularly those in the $175-$250 range, surged unexpectedly in September and October, giving home center dealers and their vendors some cause to claim that the market's year-and-a-half erosion has abated—at least temporarily.

There were 1.8 million gas and 450,000 electric chain saw units sold in 1981, a 30% drop from the previous year. In the first eight months of 1982, retail sales plummeted another 35%, according to Chain Saw Manufacturer Assoc. (CSMA) figures. September consumer purchases, however, were down only 13%, and preliminary indications showed the product was moving briskly in October.

While sales were expected to pick up after summer, dealers were surprised by this surge after the steep decline. That decline is attributed not only to market saturation, but also to competition from the burgeoning kerosene heater industry which has dampened interest in wood burning stoves.

Dismal sales probably played a role in last month's decision by Black & Decker to sell its McCulloch chain saw division, which lost $24 million in fiscal 1982.

Home centers are expected to stock fewer saws and buy more cautiously in 1983, concentrating at the higher end.

"About five years ago everyone went crazy when McCulloch came out with its inexpensive Mini-Mac," recalled Harry Miller, buyer for Chicago's Gee Lumber. "Go to any cocktail party and the host was always dragging you down to his workshop to show off his chain saw. Well, that was never the *real* chain saw market and those customers are gone."

Don Purcell, CSMA president, added that most consumer activity is happening at the $200-plus price point.

"Purchasers, especially second-time buyers, are stepping up to a better product, and there are simply not as many first-time consumers looking for low-end chain saws as there were."

The 30-unit Busy Beaver chain in Pittsburgh, for example, now carries 40-50 saws per store, but will probably cut that in half next year, according to buyer Tony Clark, who called overall product sales "pretty good."

He took on three sku's of Homelite saws in August to accompany the five McCulloch sku's the chain carries, and he plans to run major tab promotions on the products around Christmas and two weeks after. He was able to arrange a "special buying deal" to facilitate his inventory and advertising requirements because, "there's a lot of unsold chain saws on the market, and vendors are very

(Continued on page 28)

EFT networks attempting to convert DIY skeptics

By Molly Brauer
NHCN field editor

NATIONAL REPORT—Experts in a growing network of electronic funds transfer systems predict that home centers will soon be on the receiving end of a revolution in the way Americans pay for their purchase over the next five years.

Electronic funds transfer (EFT) at the retail point of sale will be accomplished by instant switching of funds from customer accounts to merchant accounts through the introduction of some simple equipment similar to that used in automatic teller transactions.

While home center merchants are rapidly adapting to computerized technology for inventory control, they tend to be wary of the so-called revolution in EFT, and none are using direct-debit cards at present.

EFT experts point to a variety of benefits to home centers that would join financial institutions in "switch" networks enabling a customer's money to be instantly transfered from their bank account to the retailer's at checkout.

The use of direct-debit cards, they say, will quicken transaction times, increase customer convenience, attract customers who prefer this method of payment, eliminate bad check risk, lower short-term borrowing expense, and increase interest income from cash flow.

Home center financial officers doubt these predicted benefits. The question of who will foot the operating costs of these systems is still an open one in their minds.

"People aren't fools; they're going to wonder what they have to gain by losing the use of their money," said Clayton Griffing, senior vp finance at Lowe's in questioning the public's willingness to accept direct-debit through point-of-sale processing.

(Continued on page 28)

Sher's warehouse stores readied for March debut

FORT LAUDERDALE, Fla.—Former Lindsley executive vice president Pat Sher will debut his first two Home-Owners Warehouse outlets here in March and plans to add two more south Florida stores during his first 12 months in operation, in what could be the

industry's first real showdown between home center warehouse outlets.

Sher's entry into the Miami-Fort Lauderdale market pits him against four Home Depots and Scotty's experimental Thrifty outlet in Hollywood, all of which use warehouse-style merchandising.

This is the first instance of head-to-head competition between warehouse-style chains, which until now have been successful competing against traditional home centers.

While Sher is convinced that the warehouse approach is the future of DIY merchandising in metro areas, launching of Home-Owners Warehouse announced last spring, (*NHCN*, May 10) was delayed somewhat because investors were wary of the economy, he indicated.

Sher says he is optimistic about competing against Home Depot, an originator of the

(Continued on page 29)

NEWSBREAKS

HOUSING OPTIMISM CONTINUES. Declining mortgage rates have spurred more interest in home buying, according to a survey conducted last month by the National Assn. of Realtors. Of brokers contacted in 25 of the nation's largest metropolitan areas, 61% reported increased home buying activity, and 50% said that the rate of home sales during the first three weeks of October was greater than in the same period during September.

INSIDE

HECHINGER'S $3.2 million Federal loan repayment will be put into a special fund to revitalize northeast D.C. ..... **page 2**
ALL AMERICAN has an energy management system 2
HOME DEPOT'S manufacturer-trained staff helped to make the chain's Pro Shows a success 3
PERGAMENT debuts in Connecticut with mass displays 3
HECHT examines the outcome of the US Steel suit 20

Anderson aims at 50% from DIY

BOUNTIFUL, Utah—After 92 years serving contractors, Anderson Lumber, a 21-unit chain, has shifted gears with an aggressive new strategy aimed at building DIY sales from one-third of the business to 50%.

A major step forward for the $55 million chain was the remodeling of its Bountiful store, which will be followed by similar efforts at four other units in Ketchum, Idaho; Park City, Utah; Rupert, Idaho and Tremonton, Utah. In addition, a $4 million, 40,000-sq.-ft. flagship home center in West Jordan, Utah, is planned for next year.

The DIY emphasis was unmistakable at the "Grand Re-Opening" of the Bountiful store late last month. A promotional aisle featured such loss leaders as a 40-piece socket set for $3.99, an Uncle Henry knife with leather sheath for $14.98 and 6-packs of soft drinks.

The company has gradually been evolving toward a 50-50/contractor-consumer mix, said James C. Beardall, president and ceo. Women now represent 40% of the stores' traffic, up from zero only a few years ago.

The Bountiful remodeling cost about $250,000. A 14-acre site has been purchased in West Jordan, Utah, for the flagship store. Future expansion is also slated in Rock Springs, Wyo., where five acres have been acquired and Vernal, Utah, where four acres were recently purchased.

Anderson Lumber opened no new home centers in 1982, but did open three stores in June and July 1981 in St. George, Utah; Cedar City, Utah and Evanston, Wyo.

The Bountiful store remained open for business during the two-month remodeling period. The new store is 8,840 sq. ft., with 7,550 sq. ft. devoted to retail selling space, an increase of 65% over the site's former 4,577-sq.-ft. selling floor and 5,720-sq.-ft. total size.

The remodeling project included installation of a new pricing and receiving room built into the existing warehouse, which was outfitted with new steel racks for plywood. The 4½-acre site was given an additional 26 parking spaces and a vestibule was built into the front entrance.

Special features of the remodeled store include a separate contractor service center with its own entrance. For customers with questions about DIY projects, an "Answer Center" was built at the end of the main promotional aisle.

Older wrought-iron signs have been replaced with new

(Continued on page 28)

Anderson Lumber president James Beardall is piloting the 92-year-old Ogden, Utah-based chain on a new, aggressive course in pursuit of DIYers. NHCN photo